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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 000464

SIPDIS

DEPARTMENT FOR NEA/ARP (BMASILKO)

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [AE](#)
SUBJECT: LACK OF TRANSPARENCY HINDERS UAE ECONOMY

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CLASSIFIED BY CDA DOUG GREENE FOR REASONS 1.4 (B AND D).

REFS: A) ABU DHABI 361
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¶1. (C) Summary. Despite strong medium-term fundamentals, many are concerned about the short-term health of the UAE economy. Contacts argue that the continued lack of economic transparency -- and a clear recovery plan -- is weighing heavily on the economy. While the federal government has taken some public steps, Abu Dhabi and Dubai still have different arguments and approaches, and business and financial officials say more needs to be done. Nationwide, few know who is making key decisions, statistics are out-of-date, financial markets are immature for the size of the economy, and the media face restrictions on what can be reported. Although some key officials are pressing for greater transparency, it is unclear that senior decision makers agree. End Summary.

TRANSPARENCY AVERSE

¶2. (C) Economic transparency is always a challenge in the monarchies of the Gulf, but few in the UAE were concerned when investments were earning double digit returns. Today, many business and financial contacts are complaining that the lack of economic and financial transparency is delaying the UAE's economic recovery. The problem is not new. In 2008, international ratings agencies Fitch and Standard and Poors both cited economic transparency in Abu Dhabi as a major weakness in its sovereign ratings. Consumer and investor confidence would rise, say many, if the value of Abu Dhabi's income and investments was disclosed. More broadly, the extent of Abu Dhabi's willingness to offer financial support to Dubai remains unclear.

¶3. (C) Abu Dhabi Chamber of Commerce General Manager Mohammed Al Hameli told EconOff that while the debate continues, senior Abu Dhabi officials are divided about the importance of such transparency. Al Hameli said he was among those who argue that revealing Abu Dhabi's financial position would reassure local and foreign investors. However, other influential officials, such as Chairman of the Abu Dhabi Department of Economic Development Nasser Al Suwaidi, believe publicizing the Emirate's financial information is unnecessary and even detrimental, if nationals then demand more financial support. Yet there are indications that a calculated move toward greater transparency is beginning. State-owned investment company Mubadala issued its first annual report on April 23, revealing a \$3 billion loss in 2008. Mubadala and other investment bodies have obtained credit ratings, which have also helped improve transparency in a limited way.

¶4. (C) Dubai seems to have decided to begin to confront its bad news more directly, if not to the full satisfaction of many businesspeople in the emirate. While initially reluctant to admit the serious impact of the global slowdown on its economy, senior officials

favoring a somewhat more direct approach to discussing the bad economic news, and how it is being addressed, seem to have prevailed in recent weeks. A triumvirate of senior officials was appointed in a "Supreme Financial Council" to respond to the crisis. One member, Dubai Department of Finance head Nasser Al Sheikh, has made a number of public comments about the disbursement of the \$10 billion bond and the intention of Dubai parastatals to pay all contractor debt. On April 18, UAE Prime Minister and Ruler of Dubai Sheikh Mohammed bin Rashid al Maktoum (MbR) issued a rare statement that addressed the economic downturn, noting "the worst is behind us." While some dismissed his comments as more spin than substance, it is clear Dubai is actively trying to shore up its image, with MbR a much more visible presence than in the first months of the crisis. Doubts remain, however, about Dubai's ability to finance its parastatal debt, usually estimated between \$80 and \$120 B. Standard and Poors recently issued a negative credit watch for several "Dubai Inc." firms after troubled parastatal property development giant Nakheel (the Palm Islands, the World etc.) began talking about "restructuring" (i.e. renegotiating the terms of) a \$3.5b sukook (Islamic bond) coming due later this year rather than paying it off under the original terms.

GOVERNMENT TRYING BUT...

15. (C) At the federal level, Ministry of Foreign Trade Director General (deputy minister-equivalent) Abdulla Al Saleh told EconOff that the UAEG hears the calls for transparency and has actively worked to be open about its responses to the economic crisis. However, while some steps have been transparent (reftels), questions remain about the fundamental health of the economy. The downturn has exacerbated long-standing complaints that economic and financial statistics are often contradictory and rarely timely. The chief operating officer of a major construction firm said the government's lack of transparency is the number one economic challenge -- to her

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business and the country. In one prime example, the local press reported in mid-April that the Cabinet had decided to "postpone" a Federal National Council request to discuss the economic crisis with government officials.

FUNDAMENTAL PROBLEM REMAINS

16. (C) Critics argue that some government steps announced months ago are still pending, such as the troubled merger of bankrupt Dubai mortgage giants Amlak and Tamweel. Investors note that the lack of financial market transparency is another indication the UAE's recovery may be slower than expected. Capital market regulations and supervision are weak, bond, mortgage and foreclosure markets not well developed, and property market regulation is non-existent in many parts of the UAE. Commercial law is underdeveloped and untested, and "credit culture" is not deeply rooted. Financial experts report that while the UAE remains attractive to investors, many choose off-shore investments, such as the Dubai International Financial Center (DIFC), where regulations are more transparent and dispute-settlement mechanisms are in place.

17. (C) While such comments are regularly heard in private conversations, little public criticism is heard. Local media report senior officials' statements, government initiatives and the broader regional downturn, but the local impact of the global crisis is minimized to avoid diminishing the UAE's positive public image. Media and other private sector contacts report negative economic news is stifled. A draft media law announced in April seeks to introduce "content based restrictions" on information that could "harm" the local economy and (to the concern of journalists) is sufficiently vague that it could be interpreted to apply to general economic reporting.

18. (C) Comment. Many hope that the current slowdown will give the UAE the time and incentive to develop much-needed economic policies and regulations. There is a cadre of (usually) younger business people and officials -- such as Dubai Chamber Director General Hamad al Buamim -- who continue to push for a more transparent approach to

the economy in general and managing the current crisis in particular.

However, it is unclear that most senior officials are prepared to take necessary steps to improve transparency. Some still appear more focused on finding short term fixes and protecting emirate and/or federal reputations and (private) equities. End Comment.

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